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Jon Parker, Head of Electricity Network Access
Ofgem
10 South Colonnade
Canary Wharf
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21/9/2018

Dear Jon,

RE: Getting more out of our electricity networks by reforming access and forward-looking charging arrangements

Sent via email to networkaccessreform@ofgem.gov.uk

ESB welcomes the opportunity to respond to Ofgem's consultation on reforming access and forward-looking charging arrangements.

ESB is Ireland's foremost energy company, with around 7,000 employees. We have been present in Great Britain since market liberalisation and for 25 years we have been powering homes and businesses across the country, investing around £2 billion. ESB was one of the first IPPs with our investment in Corby Power Station (350 MW). In 2016 we opened Carrington Power Station (880 MW), a combined cycle gas turbine power station on the site of an old coal plant near Manchester. This was the first large scale gas fired station to come on stream in Great Britain since 2013 and is one of the most flexible and efficient plants in the market.

We are supporting Britain's transition to a low carbon future by investing in flexible and renewable generation assets, including combined cycle gas turbine, wind and biomass technologies. We own 125 MW of onshore wind generation capacity, with over 400 MW in the development pipeline in Britain and recently invested in the 353 MW Galloper offshore wind project. We are constructing a new 40 MW waste wood-fired plant at Tilbury in Essex. ESB is a pioneer in electric mobility and is currently working in partnership with Transport for London to install, operate, maintain and commercialise charging infrastructure for the London taxi fleet. In 2017 we entered the GB energy supply market as ESB Energy.

Key points and general feedback on the consultation

- ESB supports Ofgem's proposal to launch a Significant Code Review (SCR).
- ESB believes that Ofgem should conduct a comprehensive review. We believe that the approach adopted may benefit from the reprioritisation of certain issues. We have identified these in the body of our response but include: time-profiled access and short term access which are not urgent areas for reform.
- While in principle ESB supports Ofgem's ambitions, we believe Baringa's qualitative analysis and Ofgem's assumption of technologies, facilities and behaviours are not



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realistic or varied. For example, the assumption that households will have smart meters when this is not guaranteed or even necessarily possible in the next few years.

- ESB believes that the GB access and charging regime should, at its heart be cost reflective and should continue to create charging incentives on this basis, without bias causing distortions. However, where necessary the right steps should be taken to account for differentials between groups of customers.

If you have any questions about our response please do not hesitate to get in touch.

Kirsty Ingham,

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Getting more out of our electricity networks by reforming access and forward-looking charging arrangements - questions

Question 1: Do you agree with the case for change as set out in chapter 2? Please give reasons for your response, and include evidence to support this where possible.

Yes we agree with the case for change set out in chapter 2.

We believe that there is inconsistency between the transmission and distribution connection regimes which is causing a distortive incentive for market participants to connect to the distribution network. This is particularly the case for how TNUoS charges are levied on distribution generators which means they do not receive the same signals on the transmission network.

Question 2: Do you agree with our proposal that access rights should be reviewed, with the aim to improve their definition and choice? Please provide reasons for your response and, where possible, evidence to support your views.

Yes we agree access rights should be reviewed.

ESB supports the work done so far by the Open Network project to make connection access rights more transparent by defining non-firm agreements¹. Ofgem should use work that has already been done through the Open Networks Project, rather than duplicating.

Question 3: Specifically, do you have views on whether options should be developed in the following areas as part of a review? Please give reasons for your response, and where possible, please provide evidence to support your views:

- a) Establishing a clear access limit for small users, with greater choice of options (as considered under b) and c) below) above a core threshold – do you agree with our proposal in paragraphs 3.5-3.10 that this should be considered? Do you have views on how a core threshold could be set?**

In principle we agree that consideration should be given to access for small users. However we are concerned about the practicalities of the proposed solution in paragraphs 3.5-3.10. The results of the 'Active Choice Collective Switch Trial: Early Findings', published in August, showed just 22.4% switched as part of a group switching trial². ESB is concerned that the proposal in paragraphs 3.5-3.10 is reliant on a far higher engagement level from households in order to be effective.

¹ <http://www.energynetworks.org/electricity/futures/open-networks-project/open-networks-project-workstream-products.html/ws2-customer-experience.html>

² <https://www.ofgem.gov.uk/publications-and-updates/eight-times-many-people-get-better-deal-ofgem-s-collective-switch-trial>



Alternatively, Ofgem has described there being a principles-based obligation on suppliers, or another third party to determine the type of access which ESB believes is worth exploring as part of this review.

b) Firm/non-firm and time-profiled access – do you agree with our proposal outlined in paragraphs 3.15-3.21 that these options should be developed?

ESB agrees that firm and non-firm access is a priority. ESB supports having a clear and consistently applied definition of ‘firm’ and ‘non-firm’ access at the distribution level; this will make curtailment risk easier for users to manage.

ESB sees that having options for ‘time-profiled’ access is less of a priority for users and adds an extra layer of complexity without obvious benefits.

c) Duration and depth of access, discussed in paragraph 3.25-3.32 - would these options be feasible and beneficial?

We cannot see the value of short term access as a product. ESB believes that ‘evergreen’ or indefinite access is more suited to our investment cases. Having only fixed-term contracts adds risk and uncertainty for developers that will impact investment decisions. Indefinite access rights should still be an option for developers.

d) At transmission or distribution in particular, or are both equally important – as discussed in this chapter?

ESB agrees that Ofgem should focus on distribution network arrangements. Project TRANSMIT that reviewed locational and forward looking elements of the TNUoS model for transmission concluded only a few years ago and ESB does not see that this has to be reviewed again so soon. In addition, we see in the near term, future projects will largely be concentrated to distribution network, therefore have prioritised the distribution network as most urgent area for improvement.

Question 4: Do you agree with the key links between access and charging we have identified in table 1? Why or why not? Do you think there are other key links we have not identified? Where possible, please provide evidence to support your views.

N/A

Question 5: Do you agree with our proposal that targeted areas of allocation of access should be reviewed? Please give any specific views on the areas below, together with reasons for your response. Where possible, please provide evidence to support your views:

a) Improved queue management as the priority area for improving initial allocation of access, as outlined in paragraphs 3.41-3.44?



ESB is supportive of the initiatives that have been led by the ENA's DER Connections Group to date; however we do not believe that this group has been able to go far enough in terms of consistency of approach between DNOs. For example, this group lobbied for Upfront Assessment and Designs (A&D) fees, however each DNO developed different pay scales and implemented A&D fees at different times, to varying degrees. ESB believes that Ofgem has to have more oversight of initiatives such as queue management in order to ensure consistency of approach. We believe that queue management is a priority.

ESB agrees that connect and management should not be extended to the distribution network. Indeed, before any compensation for distribution connected generation on non-firm contracts is arranged, there should be a cost-benefit analysis of how much this is likely to cost the system and who is going to pay.

b) Not to consider the potential role of auctions for initial allocation of access as part of a review at this time, as discussed in paragraph 3.44?

ESB is supportive of Ofgem's position not to consider auctions for initial allocation of access at this time and in the future.

c) To review the areas outlined in paragraphs 3.45-3.48 to support re-allocation of access?

ESB agrees that the re-allocation of access should be in the review. Ofgem has proposed a 'use or lose it' scheme or a 'use it or sell it' scheme. With regards to the latter, ESB is concerned that this may not be in the best interests of consumers as developers may pass through increased connection costs. However we support the principle of efficient allocation of capacity and therefore this should be including in the review.

Question 6: Do you agree that a comprehensive review of forward-looking DUoS charging methodologies, as outlined in paragraphs 4.3-4.7, should be undertaken? Please provide reasons for your response and, where possible, evidence to support your position.

We agree that there should be a comprehensive review of forward-looking DUoS charging methodologies. We support the model being made public and transparent.

Question 7: Do you agree that the distribution connection charging boundary should be reviewed, but not the transmission connection boundary? Please provide reasons for your response and, where possible, evidence to support your position.

ESB agrees that the distribution connection boundary should be reviewed. It is unrealistic and distortive to expect a distribution connected generator to cover the cost of a transformer uprate at an already full Grid Supply Point.

Question 8: Do you agree that the basis of forward-looking TNUoS charging should be reviewed in targeted areas? If you have views on whether we should review the following specific areas please also provide these:



a) Do you agree that forward-looking TNUoS charges for small distributed generation (DG) should be reviewed, as outlined in paragraphs 4.19-4.23?

ESB agrees that this should be within the scope of the review. We believe that generators across voltage levels should receive consistent forward-looking signals and therefore this should be within the scope of the review.

b) Do you consider that forward-looking TNUoS charges for demand should be reviewed, as outlined in paragraphs 4.24-4.27? Please provide reasons for your response and, where possible, evidence to support your position.

ESB agrees that this should be within the scope of the review for the reason stated in question 8 b).

Question 9: Do you agree that a broader review of forward-looking TNUoS charges, or the socialisation of Connect and Manage costs through BSUoS at this time, should not be prioritised for review? Please provide reasons for your response and, where possible, evidence to support your position.

Forward-looking TNUoS charges should not be prioritised at this moment in time. The EMR Five year review, the Targeted Charging Review, the Open networks Project, RIIO-2 are just some of the programmes of work that industry is progressing in the immediate to medium term and we believe forward-looking TNUoS charges are not a concern.

Question 10: Do you agree that there would be value in further work in assessing options to make BSUoS more cost-reflective, and if so, that an ESO-led industry taskforce would be the best way to take this forward?

The volatility of BSUoS charges results in the risk that both generators and suppliers apply a risk premium to avoid exposure to unexpectedly high charges, in addition, the ex-post nature of BSUoS adds to this. While ESB recognises the improvements that the ESO has made to BSUoS forecasts, the unpredictability of the charge is a risk that ESB manages daily.

However, while we believe that there are issues with the fore-castability of BSUoS, and with who causes constraints on the system verses who pays for those costs, ESB does not see that this should be a priority issue for the industry.

ESB believes that the TCR and the investments made on the transmission network (the Western Link) will reduce constraints costs and may widen the charging base and therefore lessen the urgency for a review of BSUoS. In addition, ESB is waiting for Ofgem's decision on CMP250 which should also provide some certainty for the industry.



Therefore ESB in principle supports a review of BSUoS, however believes that it is not a priority for industry and that it should not be a cost-reflective charge.

Question 11: What are your views on whether Ofgem or the industry should lead the review of different areas? Please specify which of SCR scope options A-C you favour, or describe your alternative proposal if applicable. Please give reasons for your view.

ESB supports Ofgem leading a comprehensive review, option C. However we have highlighted there are several issues that we do not see as being a priority area for Ofgem and could be excluded from this review, for example time-profiled access and short term access.

We agree that DNOs and the ESO should have a role given that they have the information and are regulated assets who are able to draw on resources, however we strongly believe that the DNOs should not lead.

Question 12: Do you agree with our proposal to launch an 'Option 1' SCR for areas of review that we lead on? Please give reasons for your view.

ESB is supportive of option 1. ESB believes that it is important industry is informed of what a licensee would be instructed by Ofgem. We believe that this communication piece is critical to the success of an option 1 scenario.

Question 13: Do you agree with the introduction of a licence condition on the basis described in paragraphs 5.11 and 5.12 and Appendix 5? Why or why not? Do you have any comments on the key elements set out in table 7 of Appendix 5a, or consider there are any other key elements which should be included? Please give reasons for your view.

ESB does not support a licence condition being included in Appendix 5b as we believe it is unnecessary. Licensees already have an obligation to raise changes to the code if they find a default and therefore the proposed licence condition would be administratively burdensome.

Question 14: Do you have any comments on the draft wording of the outline licence condition included at Appendix 5b? Please give reasons for your view.

N/A

Question 15: What are your views on our indicative timelines? Do you foresee any potential challenges to, or implications of, the proposed timelines and how could these be mitigated?

ESB believes that it would be valuable to see how the solutions proposed under the Targeted Charging Review would work with the solutions under this Significant Code Review. Modelling the different impacts of the two workstreams would mitigate unforeseen



consequences. If Ofgem could factor this exercise in to its timelines, ESB believes this would be useful for the whole industry.

Question 16: What are your views on our proposals for coordinating and engaging stakeholders in this work?

ESB believes that the most recent Charging Futures Forum (5/9/2018) was useful as it was interactive and relevant. ESB supports Ofgem's creative solutions to information dissemination via the podcasts however we value robust analysis and consultations over and above the podcasts.